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Health Services Cost Review Commission

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Memorandum

Date: November 9, 2017

To: Commissioner Cassandra Tomarchio – Maryland Health Care Commission

From: Gerard J. Schmith *GJS*
Deputy Director, Hospital Rate Setting, HSCRC

Subject: Anne Arundel Medical Center Mental Health Hospital (“MHH”) CON

I write in response to the letter from Maryland Health Care Commission (MHCC) staff that asked the Health Services Cost Review Commission (HSCRC) staff to review the financial projections in the above-referenced CON application and related filings. Before HSCRC staff can advise MHCC whether, in its opinion, the proposed project is financially feasible, we need additional information. For that reason, we request that you, as the Reviewer in this matter, ask the applicant to respond to the following questions.

1. What are the departmental rates assumed for MHH? On page 57 of the CON application, MHH states that projected inpatient charges in 2022 will equal \$6,818,753. The inflated pro forma financial statements submitted on April 1, 2016 include \$8,168,978 in projected inpatient charges for FY 2022. The uninflated pro forma financial statements submitted on April 1, 2016 include \$7,733,707 in projected inpatient charges for FY 2022. MHH should provide a reconciliation of the projected inpatient revenue included on Page 57 of the CON and the inpatient revenue included in the April 1, 2016 supplemental information.
2. Dividing the projected inflated outpatient charges for FY 2022 of \$2,814,015 by the projected 5,758 partial hospitalization visits for FY 2022 results in an inflated average charge of \$489 per visit. Dividing the projected uninflated outpatient charges for FY 2022 of \$2,665,119 by the projected 5,758 partial hospitalization visits for FY 2022 results in an average uninflated charge of \$463 per visit. For the year ended June 30, 2017, Sheppard Pratt reported \$16,581,207 in outpatient revenue and 64,900 partial hospitalization visits for an average charge of \$255 per hospitalization visit. MHH should provide an explanation as to why the projected MHH outpatient revenue per partial hospitalization visit is so much greater than Sheppard Pratt's actual FY 2017 average.

3. What did MHH assume as inpatient and outpatient reimbursement for the 39.3% of patients that will be covered by Medicaid? As a Specialty Hospital, MHH does not fall under the Waiver provision whereby Medicaid is required to reimburse hospitals at 94% of charges.
4. What did MHH assume as inpatient and outpatient reimbursement for the 28.2% of patients that will be covered by Medicare? As a Specialty Hospital, MHH does not fall under the Waiver provision whereby Medicare is required to reimburse hospitals at 94% of charges. Staff is also concerned that Medicare may view MHH as a 32-bed hospital instead of a 16-bed hospital because the CON refers to the shell space for an additional 16 beds as part of the proposed construction costs. If Medicare were to view MHH as a 32-bed hospital, it is possible that all of the projected Medicare payments could be at risk.
5. MHH is projecting a profit for FY 2022 of \$1,111,940 on net revenue of \$7,843,577 in the projected inflated financial statements for a profit margin of 14.2%. Staff does not believe that a 14.2% profit margin is reasonable for a non-profit entity. It is possible that MHH has not projected expenses reasonably or has assumed a rate structure higher than the HSCRC would approve. Staff noted that MHH's projected FY 2022 uninflated salaries and fringe benefit costs per Equivalent Inpatient Day (EIPD) were equal to Sheppard Pratt's actual FY 2016 salaries and fringe benefit costs per EIPD, even though Sheppard Pratt has more economies of scale given that it has almost 20 times the number of patient days than MHH is projecting. Staff would like MHH to provide an analysis comparing its projected staffing and expenses by department to the other existing specialty psychiatric hospitals in Maryland including Sheppard Pratt, Adventist Behavioral Health, and Brooklane.
6. Why does projected depreciation expense decrease from \$508,949 in FY 2021 to \$424,956 in FY 2022?
7. MHH is projecting an average length of stay of 6.1 patient days in the CON. For FY 2017, Sheppard Pratt's average length of stay was 11.7 patient days; Adventist Behavioral Health's average length of stay was 8.9 patient days; and Brooklane's average length of stay was 8.6 patient days. According to information provided by Adventist Behavioral Health, the average length of stay in Maryland acute care hospitals for psychiatric patients was 5.7 patient days excluding the tertiary centers of University-Main Hospital, Johns Hopkins-Main Hospital, and Johns Hopkins Bayview for CY 2016. The average CY 2016 charge per discharge at Maryland acute care hospitals for psychiatric patients was \$8,232 excluding the tertiary centers of University-Main Hospital, Johns Hopkins-Main Hospital, and Johns Hopkins Bayview compared to the projected uninflated average charge of \$8,670 at MHH. Does MHH plan on serving patients similar to those patients treated in acute care hospitals or patients treated at specialty psychiatric hospitals?
8. MHH states on Page 75 of the CON that Sheppard Pratt's average length of stay was 8.45 patient days. According to the monthly revenue and statistics reports submitted to HSCRC by Sheppard Pratt for the year ended June 30, 2017, Sheppard Pratt's average length of stay was 11.7 patient days. MHH should explain why they used an average length of stay of 8.45 patient days for Sheppard Pratt in their projections versus the actual 11.7 patient days, and how MHH's projected patient days and average charge per case in the CON would change if the average length of stay for Sheppard Pratt used on Page 75 were changed to 11.7 patient days.

We are hopeful that the answers to the questions posed will be helpful to HSCRC staff in rendering a reasoned opinion on the financial feasibility of the proposed project. We appreciate your assistance in this matter.